

VZCZCXRO3547  
RR RUEHBC RUEHDE RUEHDH RUEHIHL RUEHKUK  
DE RUEHGB #1148/01 1201532  
ZNY CCCCC ZZH  
R 301532Z APR 09  
FM AMEMBASSY BAGHDAD  
TO RUEHC/SECSTATE WASHDC 2896  
INFO RUCNRAQ/IRAQ COLLECTIVE  
RHEHNSC/NSC WASHDC  
RHEBAAA/USDOE WASHDC

C O N F I D E N T I A L SECTION 01 OF 03 BAGHDAD 001148

SIPDIS

DOE FOR GEORGE PERSON

E.O. 12958: DECL: 04/30/2019  
TAGS: [EPET](#) [ENRG](#) [EINV](#) [PGOV](#) [PREL](#) [US](#) [IZ](#)  
SUBJECT: ASSISTING IRAQ TO DEVELOP ITS PETROLEUM RESOURCES

REF: A. STATE 34650  
[B](#). BAGHDAD 194  
[C](#). BAGHDAD 1105  
[D](#). 08 BAGHDAD 3497  
[E](#). 08 BAGHDAD 3065

Classified By: Acting EMIN Michael Dodman, reasons 1.4(b,d)

This is a request for guidance. See para 9.

[1](#). (C) SUMMARY: Budgetary pressures have motivated the GOI to increase crude oil production, but it is having difficulty executing its plans. We have a vague request for additional support for contracts the GOI hopes to complete in the short term, but no details on what is required. The GOI's urgent need to reform the sector, combined with the USG's overall review of Iraq policy, argues for a new USG approach on oil. Embassy has proposed a strategy for our engagement and requests Department review and provide additional guidance.  
END SUMMARY

Pulling in Different Directions  
-----

[2](#). (C) The GOI has been galvanized by budgetary implications of the sharp fall in crude oil prices, which has been accompanied by declining production (ref D). To address Prime Minister Maliki's concerns, Deputy Prime Minister (DPM) Barham Saleh undertook initiatives separately from the Ministry of Oil (MoO), forming a committee to investigate declining production in southern and northern oil fields and sponsoring a late February Oil Policy Symposium, to which he invited a range of international experts to advise the GOI on the way forward. In the end, the symposium's primary recommendations included measures to increase the Oil Ministry's operational authorities, to reestablish the Iraq National Oil Company, and to form a Higher Oil and Gas Council. The symposium also cemented broad GOI recognition that international oil company investment and expertise would be essential for the development of Iraq's petroleum sector.

[3](#). (C) Oil Minister Shahrastani has come under criticism for his ministry's management of the sector, including for his unwillingness to more actively draw international oil firms to Iraq. For his part, Shahrastani has continued to focus on the MoO's bid rounds - designed to bring international firms to Iraq to partner with ministry operating companies on terms that many major oil firms have criticized as unworkable - as the primary route to achieving a goal of increasing oil output to six million barrels per day (bbl/d) by 2014. At the same time, the MoO is inviting bids from select companies for Engineering, Procurement, and Construction (EPC) contracts to develop certain fields that have not been included in the bid rounds. In a third effort to boost production, the MoO is contracting for additional drilling and other work on the oil fields, including a number in the bid rounds, in its own "crash program" with a target of

increasing output by 500,000 bbl/d in 2009 on its own.

#### Potentially Reaching a Dead End

-----

¶4. (C) Despite the recognized imperative of quickly boosting government revenues, the GOI's efforts have been bedeviled by the same excessive nationalism, politicization, bureaucratic over-regulation, and legal uncertainties that have caused past initiatives to founder.

-- The Oil Policy Symposium's recommendations to reestablish the Iraq National Oil Company and to form a Higher Oil and Gas Council have not been acted on, due to some legal views that this cannot be done unless the Council of Representative (Parliament) approves the decisions. The Cabinet of Ministers has also taken no decision regarding the additional operational authorities for the MoO. (Momentum on the Operational authorities for the MoO. (Momentum on the symposium recommendations has also suffered due to DPM Saleh's increased focus on the summer elections in the Kurdistan Region.)

-- The first bid round's target deadlines have been postponed. Controversy exists within GOI circles over whether the contracts must be submitted to Parliament for approval. If this is the case, the contracts' finalization is likely to be unacceptably protracted. Some MoO officials are urging Shahrستاني to abandon the first bid round and focus instead on the second bid round.

-- Confusion also exists regarding the EPC contracts. The bids submitted for the Nasiriyah field, the first to be made

BAGHDAD 00001148 002 OF 003

available, have been returned to the bidding companies for modification, leading to further delay for a contract that was originally supposed to be finalized in March. The anticipated duration of the contracts and which fields will be offered also seem to be under review.

-- Although KRG's production sharing contracts (PSCs) have led to field development and the potential to export up to 100,000 bbl/d, the KRG and the MoO have appeared not to negotiate seriously to follow up an agreement in principle that Shahrستاني reached with the KRG in November.

#### The USG Has Assisted

-----

¶5. (C) Since 2003, USG efforts to support the oil sector have had to walk a fine line between providing assistance and arousing a neuralgic over-reaction based on fears of foreign exploitation of Iraq's oil resources. The USG role has garnered unfavorable attention and bad press in both countries, including on the U.S. position on KRG oil contracts or a review of standard contracts for two-year technical service contracts. Partly as a result, our efforts to support the sector have focused on specific training programs and engagement on broad policy issues, such as support for passage of hydrocarbons legislation. In oil as in other areas, we have moved beyond the big-ticket infrastructure reconstruction programs. We have achieved some successes in the past, including the ESF-funded enhancements to pipeline security, dubbed Pipeline Exclusion Zones, which led to increases of crude oil exports through the Iraq-Turkey pipeline, and the launch of the Southern Export Redundancy Project to mitigate the possibility of a disastrous oil spill from undersea pipelines in the Gulf. USAID continues to execute its "Tatweer" national capacity development program that provides training and technical assistance to the Ministries of Oil and Electricity, among others. The Embassy and MNF-I have a handful of subject matter experts to advise the ministry and operating companies on discrete projects and support capacity building efforts.

¶6. (C) On the policy front, we continue to support GOI-KRG negotiations on the range of issues concerning joint management of the petroleum sector, including possible resolution of differences regarding hydrocarbons legislation, while recognizing that progress in this area is linked to larger and more contentious issues, such as disputed internal boundaries. We are planning to support UNAMI's call for high-level participation in a planned June 14-18 conference for GOI and KRG officials that will address hydrocarbons legislation issues. We have supported possible progress on development of a National Energy Strategy by providing a list of international energy consultants and supporting the GOI's request for World Bank assistance in this area. We have also supported the visit by officials from the Extractive Industries Transparency Initiative (EITI) to Baghdad and acted as a conduit for advice and assistance on EITI to Iraq's national coordinator.

But Can Do More  
-----

¶7. (C) The split within the GOI on oil - with the prime minister's office pursuing initiatives that the Oil Minister either rejects or needs to be forced to accept - impedes both progress on the immediate goal of growing production and our ability to assist. We recommend that we continue to work with all sides, maintaining a regular dialogue and limited support to the MoO and its operating companies, but responding positively, to the extent we are able, to requests. Responding positively, to the extent we are able, to requests from the prime minister and DPM Saleh. As he did in preparing the February oil symposium, Saleh has again requested USG support with efforts to put in place direct contracts with selected international firms (we believe in response to the prime minister's direction). In a meeting on April 22 (ref C), Saleh told EMIN that he wanted to get together soon to discuss specific needs for technical assistance; despite repeated requests to Saleh's office, he has yet to provide any additional details to flesh out specific needs. In our assessment the GOI would be best served by a multi-disciplinary energy consulting firm that has the legal and technical expertise to advise on the sort of contracts the GOI is considering. Through the Oil and Gas Working Group set up under the bilateral Strategic Framework Agreement, we have made repeated offers to the GOI (PM office and Oil Ministry) to provide information on the sort of firms that we believe are essential to move the GOI's ambitious plans forward. Unfortunately, they have not, to our knowledge, moved in this direction.

BAGHDAD 00001148 003 OF 003

¶8. (C) The oil sector is critical to Iraq's future. We need to increase our engagement with the GOI with the goal of supporting its efforts to extract, exploit and export its hydrocarbon resources in a manner that provides adequate budgetary resources to meet both current GOI spending and future development requirements. An immediate first step is defining and responding to DPM Saleh's request for support. The Strategic Framework Agreement's Oil and Gas Working Group provides a bilateral mechanism for continuing dialogue on assistance needs and policy questions, but given the seriousness of the problems facing the sector, this channel is not sufficient.

Action Request  
-----

¶9. (C) Post has developed a strategy for Embassy/MNF-I engagement with the GOI on the oil sector (to be forwarded via email to State/NEA). The document outlines focus areas for both assistance and policy intervention with the Iraqis; while targeted to efforts on the ground, we believe it can form the basis of a broader USG policy. A revised approach needs to take account, inter alia, of the growing interest in Iraq by major U.S. and other international oil companies. We

request Washington agencies review this document and provide us guidance as soon as possible on USG policy going forward, recognizing our overall Iraq policy remains under review. Regarding the immediate request for assistance from DPM Saleh, post will provide recommendations on the appropriate response once Saleh has clarified for us his requirements.

HILL